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U.S. Seeking To Ban Lawyer From Spy Case

Conflict of Interest With 2nd Client Seen

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Justice Department lawyers have moved to bar the attorney for accused spy Richard Craig Smith from also representing a Hawaii businessman who says he was a CIA agent, saying that could jeopardize Smith's trial in Alexandria.

The government said that Smith's attorney, A. Brent Carruth of Los Angeles, should not have been appointed by a judge to defend Ronald R. Rewald in a fraud trial stemming from the collapse of Rewald's Honolulu investment firm. Rewald contends the firm was run by the CIA.

In the Virginia case, Smith, a resident of Bellevue, Wash., also says he was secretly working for the CIA. He is accused of providing the identities of six U.S. double agents to a Soviet intelligence officer for \$11,000. No date has been set for his trial because pretrial motions in the case are on appeal to the 4th U.S. Circuit Court of Appeals.

Smith, a former Army counter-intelligence officer, says he reported to his CIA contacts through Rewald's defunct Honolulu firm, Bishop, Baldwin, Rewald, Dillingham & Wong. A federal judge in Alexandria has ruled that Smith will be allowed to introduce confidential documents related to Bishop, Baldwin in his defense.

Rewald also is seeking to present company documents that a judge has placed under seal at the CIA's request. Rewald was indicted in September on 100 counts of fraud, tax evasion and perjury in the collapse of Bishop, Baldwin, a failure that cost 400 investors about \$22 million.

In a motion filed in federal court in Hawaii, Theodore S. Greenberg, an assistant U.S. attorney in Alexandria, said the two cases are "so inextricably intertwined" that Carruth's work for both defendants "creates a conflict of interest."

For example, Greenberg contended that Carruth would have divided loyalties in deciding whether Rewald should testify at Smith's trial, which could help Smith but complicate Rewald's own defense.

"It's unusual for the government to suddenly be concerned about protecting the rights of people they are prosecuting," Carruth responded.

Carruth said the government fears that he will use the classified documents to help both defendants. He said Rewald decided to hire him even after a judge informed him of the potential for conflict.

"The claims of Smith and Rewald are consistent," Carruth said. "Both are saying they worked for the CIA. Both are saying they were left to dangle by the government's decision to close up Bishop, Baldwin."

The CIA has said it had only "a slight involvement" with Bishop, Baldwin, but Rewald and his associates have contended that the CIA used the firm, among other things, to gather intelligence on the flow of foreign capital, arrange attempted arms sales to Taiwan and obtain plans for a Japanese high-speed train.

They also point out that investors in Bishop, Baldwin included two former CIA station chiefs in Hawaii and some senior military officers.

Carruth said that confidential Bishop, Baldwin documents, which are under court seal, show that the firm's covert operations were approved at "the highest levels" of the CIA. "One hundred percent of the activities were controlled and operated by the CIA," he said.

Carruth said the CIA spent the investors' money, and that the firm collapsed because the CIA "decided to bail out" after arranging to protect certain agents and deciding others were "expendable."

Prosecutors respond that Rewald has been charged with perjury and that he is exaggerating his intelligence connections to cover up a massive scheme to bilk investors. According to bankruptcy trustees, Rewald was spending \$250,000 a month on a life style that included a fleet of cars, boats, jewelry, art and the exclusive Hawaii Polo Club.